ORIGINAL

OPEN MEETING AGENDA ITEM

From: Stacey Champion and Abhay Padgaonkar
Date: August 4, 2020
Docket: APS Rate Review (**E-01345A-19-0003**); APS Rate Case (**E-01345A-19-0236**)
Re: **Enough with APS's Denials, Deceptions, and Distractions**

Dear Commissioner Kennedy, Chairman Burns, and Commissioners:

We want to thank you for asking important questions. APS's response[1] dated July 16, 2020 to mainly the questions Comm. Kennedy at the June 18, 2020 Special Open Meeting is nothing but spin doctoring. We want to set the record straight and urge the **Commissioners to seek additional information from APS.** (Please see specific data requests to make on p4, p6 below.)

EXECUTIVE SUMMARY

- **SAFETY:** With safety incidents jumping by **33%** in 2018 and again by another **14%** in 2019 — not to mention headline-grabbing explosions — APS has become increasingly unsafe.
- **RELIABILITY:** With both number and duration of outages deteriorating by **4-5%**, while being **41%** worse on outages and **126%** worse on duration compared to SRP, APS has become increasingly unreliable.
- **APS PRIORITIES:** APS's worsening performance in safety and reliability hardly mattered. Despite not even working a full year, ex-CEO Don Brandt walked away with more than $12 million in 2019 — 16% higher than in 2017. The 2019 CEO Incentive Plan had Pinnacle West earnings at 62.5% weighting vs. a miniscule 3.75% for safety and 2.25% weighting for reliability — together less than 1/10th of the PNW earnings component.
- **UNFREEZING PREMIER CHOICE LARGE.** By hiding behind a misleading bar chart, APS never answered the question and made it difficult for anyone to figure out the real impact of customers changing from their current Time-of-Use (TOU) rate to Premier Choice Large — a rate **APS** proposed should be unfrozen. A detailed analysis based on APS's numbers in the bar chart shows that the switch would've added **$121 Million** annually to APS's coffers.
  - Flawed Rate Design: If going from a TOU rate to a flat rate costs $120 million annually, it shows how extremely flawed the current rate design is. This is the same flawed rate design that will carry into the pending rate case and persist for years to come.
  - Zero Credibility: It also shows the need for Commissioners to not take APS at face value and for asking detailed and clear-cut questions.
- **MEP:** APS has denied any "revenue surplus" while using a misleading bar chart to make it difficult to figure out how much revenue surplus APS is actually generating. A detailed analysis based on APS's numbers in the bar chart shows that APS is generating **$83-$104+ Million** in revenue surplus annually from non-MEP customers, adding up to a quarter billion dollars since the 2017 rate case. (Overland Audit estimated $105 million revenue surplus in 2018.)
- **SHUTOFFS:** APS shutoffs were at an annual run rate of 106,882 shutoffs in 2019, nearly the same number as in 2018. APS's shutoff rate was **9.5%** — the equivalent of nearly 1 out of 10 APS customers — and **3.6** *times* that of TEP's.

[1] "APS Response" at: https://docket.images.azcc.gov/E000007672.pdf

ACC - Docket Control - Received 8/4/2020 12:09 PM
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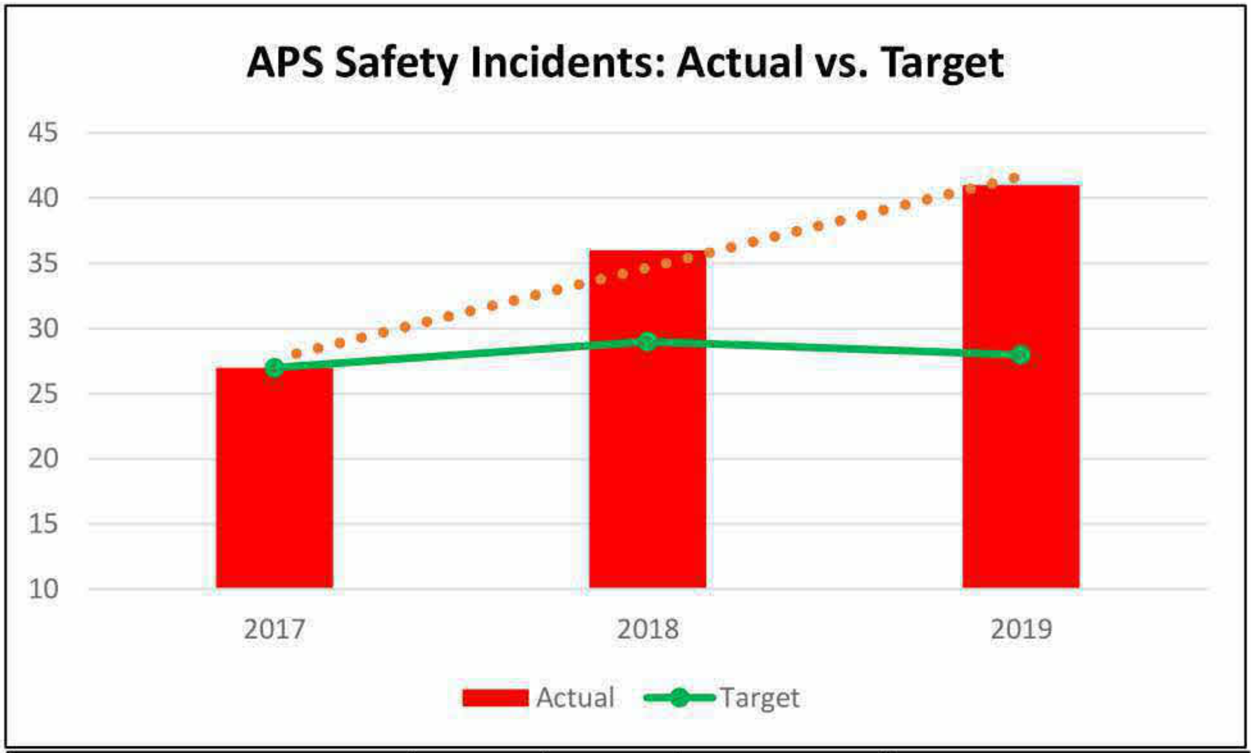
Safety: APS has become increasingly unsafe

The following charts for APS's OSHA Recordable Incidents[2] over the last three years speak for themselves as it relates to APS's safety record.



APS: OSHA Recordable Incidents	Target	Actual	% Target Missed	% Higher Than Previous Year
2017	27	27	0%	-
2018	29	36	24%	33%
2019	28	41	46%	14%

- **Deteriorating Trend.** There is a clear, deteriorating trend over the years. The target has stayed about the same, but the OSHA safety incidents jumped by **33%** in 2018 and again by another **14%** in 2019 compared to the previous year.
- **Bad Miss.** APS badly missed its own safety targets at an alarmingly higher rate — by **24%** in 2018 and by **46%** in 2019.
- **Actions speak louder than words.** Pinnacle West earnings weighting was 62.5% for CEO Don Brandt's Incentive Plan vs. an estimated, trifle 3.75% for OSHA Recordable Incidents. In short, Pinnacle West earnings weighed approximately **17 times** more than safety did.

[2] Pinnacle West Proxy Statements at: http://www.pinnaclewest.com/investors/reports/proxy-statement/default.aspx

Reliability: APS has become increasingly unreliable

The following table for APS Reliability metrics, SAIFI and SAIDI,[3] over the last two years also speaks for itself.

APS: Reliability Metrics	2018	2019	% Inc. (Dec)
SAIFI (System Average Interruption Frequency Index	0.81	0.84	4%
SAIDI (System Average Interruption Duration Index)	83.0	86.8	5%

- **Deteriorating Trend.** Both interruptions and duration metrics deteriorated by **4-5%** year over year, with the average APS customer experiencing a sustained outage (of over 5 minutes) 0.84 times and losing power for 87 minutes in 2019.
- **APS vs. SRP.** As a point of reference, EIA[4] data reported for SRP (also with more than 1 million customers) a 2018 SAIFI value of 0.573 (APS was **41%** worse) and 2018 SAIDI value of 36.67 (APS was **126%** worse).
- **Actions speak louder than words.** Pinnacle West earnings weighting was 62.5% for CEO Don Brandt's Incentive Plan vs. an estimated, trifle 2.25% for SAIFI and SAIDI combined. In short, Pinnacle West earnings were weighted approximately **28 times** more than reliability was.
- **Disconnect.** Despite retiring on November 15, 2019 with a worsening safety and reliability record, Don Brandt's 2019 total compensation was **$12,250,614** —16% higher than in 2017.

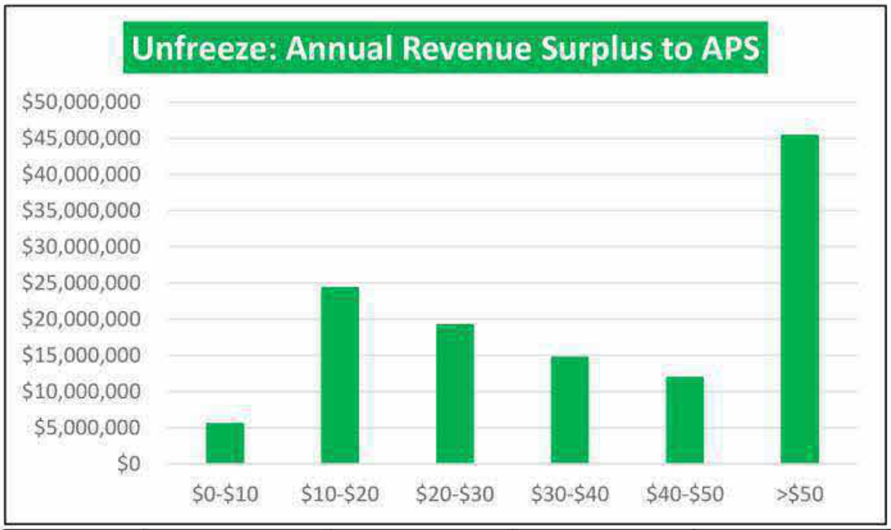
Unfreezing Premier Choice Large: Commission ALMOST unfroze $121 million!

- **Self-dealing.** As we strongly suspected, APS would have greatly benefited if the Commission had naïvely and hurriedly gone along with APS's proposal to unfreeze the Premier Choice Large rate. Whereas only 3,700 customers would have benefited, **108 times more** or **over 400,000** customers would have been harmed by changing from their current Time-of-Use (TOU) rate to Premier Choice Large.

- **Chicanery.** APS cleverly reported average **annual** savings of $300,000 for the savers, but failed to clearly state what the corresponding increase in revenue would have been from the switch! APS hid behind a misleading bar chart showing **monthly** bill impact for savers (tiny **red** oval), which made it difficult to figure out what APS was hiding, namely, how much a switch from Time-of-Use (TOU) rate to Premier Choice Large would have added to APS's coffers from the "losers" (massive **green** circle). Difficult, but certainly not impossible!

[3] "Electric Company Annual Report" at: https://www.azcc.gov/utilities/electric/electric-annual-reports
[4] "Annual Electric Power Industry Report" at: https://www.eia.gov/electricity/data/eia861/

- **$120 Million Sleight of Hand.** Notwithstanding APS's sleight of hand, a switch from Time-of-Use (TOU) rate to Premier Choice Large would have added an estimated **$121 Million annually** to APS's coffers as shown below. The average increase would be nearly **$300** annually (or $25 monthly) per customer. If and when found out, APS would have had a perfect excuse too: The Commission unfroze the Premier Choice Large rate!

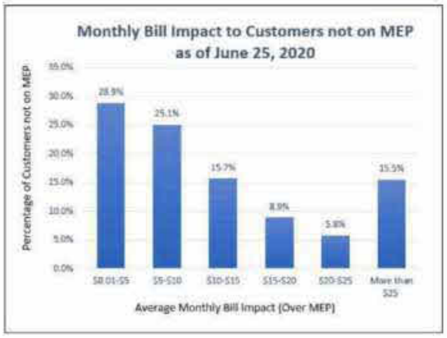


Category	Avg. Monthly Increase	Avg Annual Increase	Approx # of Customers Impacted	Annual Revenue Surplus to APS
$0-$10	$5	$60	92,000	$5,520,000
$10-$20	$15	$180	135,000	$24,300,000
$20-$30	$25	$300	64,000	$19,200,000
$30-$40	$35	$420	35,000	$14,700,000
$40-$50	$45	$540	22,000	$11,880,000
>$50	$60	$720	63,000	$45,360,000
TOTAL			**411,000**	**$120,960,000**
Avg Annual Increase				**$294.31**

- **Flawed Rate Design.** This is also an incredibly powerful example of how flawed and twisted the current rate design is and why we insisted that the 2017 rate increase be rescinded — rather than the Commission kicking the can forward as it did. How else do you explain that a simple change of switching from one rate to another rate would cost the ratepayers **$120 million** more. It's important to remember that this is exactly the same flawed rate design that will be carried over "as-is" into the pending rate case and will continue for years to come.
- **Zero credibility.** This should also reinforce why APS should have zero credibility in the Commission's eyes. This is also the reason we get incensed when Ms. Champion is not allowed to ask questions *despite* being an Intervenor, when Commissioners don't bother reading what gets docketed, and when Commissioners show no curiosity to ask even the simplest of questions. It is bad enough the worthless commission Staff or RUCO, with apparently the best interest of the utility in mind, has provided zero analysis or insights. Virtually all breakthroughs have come from us, but as a Commissioner, if you are not reading the docket and asking questions we are raising, you are not doing your job.
- **PLEASE ASK APS.**
    - The Commission must ask APS to confirm or refute the revenue surplus due to unfreezing Premier Choice Large using the same format as used in the analysis above.

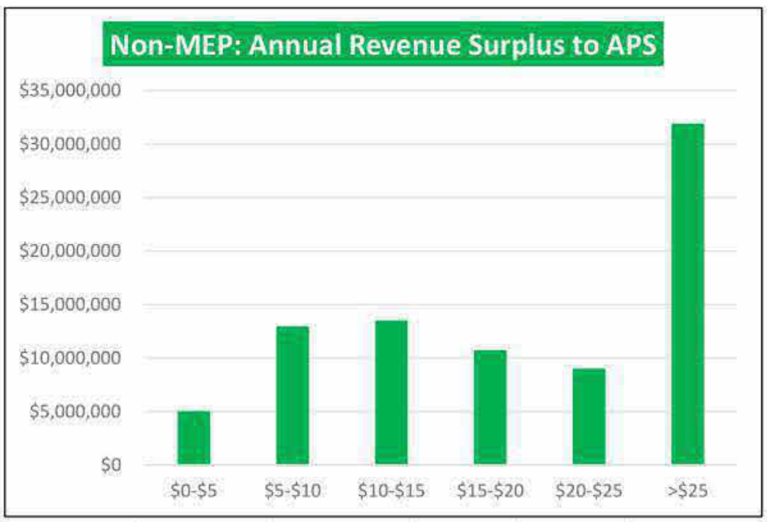
Most Economic Plan: "APS does not have a revenue surplus." Ha!

- **More than half a million customers are non-MEP.** APS has reported in its Annual Report[5] that that there were 1,123,829 residential customers in 2019. In its Response, APS claimed that 49.20% of the customers were on MEP, meaning that 50.80% or 570,905 customers were not on MEP.



- **Fool me twice, shame on me.** APS used the same trickery as it did before in the "unfreeze" section. Again, APS hid behind a misleading bar chart showing average monthly bill impact over MEP and percentage of customers not on MEP, thereby making it difficult to decipher the actual number of customers impacted, the actual amount of the bill impact, or the total revenue surplus to APS as a result of hundreds of thousands of customers not being on MEP. Difficult, but certainly not impossible!

- **\$82-\$104+ Million Sleight of Hand.** In its comments (e.g., "less than \$10 a month"), APS minimized the impact consistent with Pinnacle West CFO Ted Geisler telling the analysts on the earnings call: "... when we're defining most economic plan, that could mean that if one plan's \$1 more savings than another, it's more economical."[6] Despite APS's sleight of hand, the revenue surplus of approximately 571,000 ratepayers not being on MEP is *conservatively* estimated at **\$83 Million annually** (or \$145 per customer annually) to APS's coffers as shown below.



Category	Avg. Monthly Bill Impact	Avg Annual Bill Impact	% of Customers not on MEP	# of Customers not on MEP	Annual Revenue Surplus to APS
$0-$5	$2.5	$30	28.9%	164,992	$4,949,747
$5-$10	$7.5	$90	25.1%	143,297	$12,896,747
$10-$15	$12.5	$150	15.7%	89,632	$13,444,816
$15-$20	$17.5	$210	8.9%	50,811	$10,670,217
$20-$25	$22.5	$270	5.8%	33,112	$8,940,374
>$25	$30.0	$360	15.5%	88,490	$31,856,506
TOTAL			**99.9%**	**570,334**	**$82,758,408**
Avg Annual Increase					**$145.11**

- **Known unknown.** This is a conservative estimate, assuming '\$25' average is \$30. But, if the actual average for the '>\$25' category were to be \$50, the revenue surplus would be **\$104 million** or even higher if the average were to be higher for the '>\$25' category.

[5] "APS 2019 Electric Utility Annual Report" at: https://www.azcc.gov/docs/default-source/utilities-files/electric/annual-reports/arizona-public-service-company/2019.pdf?sfvrsn=5f14056d_4

[6] "Pinnacle West Q1 2020 Results - Earnings Call Transcripts" at: https://seekingalpha.com/article/4345178-pinnacle-west-capital-corporation-pnw-ceo-jeff-guldner-on-q1-2020-results-earnings-call?part=single

- **De minimis, really?** The analysis above exposes another myth APS has been peddling to the Commission and investors in that the average customer impact is "de minimis" so it's too small to worry about it. The average monthly bill impact of $12-$15 may appear small, but when multiplied by 12 months and 571,000 non-MEP customers, it adds an extra **$82-$104 million** annually to APS's coffers — a point we have been making all along! Here's your proof.
- **Overland was right.** It is important to remember the following key findings in the Overland Audit Report:[7]
    - "Furthermore, customers who were moved by APS onto a rate plan "most like" their previous rate plan were less likely to be on the most economical rate plan."
    - "As a result, should these customers continue on sub-optimal rate plans, APS could see higher-than-anticipated revenues in future years."
    - "After performing this analysis, we conclude that APS had an Acc jurisdictional revenue surplus of approximately $105 million based on 2018 operations."
- **No excuse.** With that in mind, APS is responsible for: a) the flawed rate design, b) for force-migrating ratepayers to the more expensive "most-like" plans, and c) striking out on customer education and outreach. So, the Commission must hold APS accountable and not allow APS to use "it's a customer choice after all" as an excuse now.
- **Disturbing trend.** In addition to relying on worthless metrics as explained in Barbara Alexander's report, APS's Company's Rate Migration Report[8] shows a highly disturbing trend: The company has pushed more than 46,500 customers onto R-2 and R-3 demand plans over the last year.
    - These demand plans are difficult to understand, nearly impossible to manage, and essentially add a "fixed" charge over which the customers have very little control. Thus, demand plans create rare winners and mostly all losers. (Please see Ms. Champion's July 28 email to you as Attachment A.)
    - APS keeps reporting fractional changes to MEP % as if to show some tremendous progress it is making, but it's a desperate attempt to distract from one constant that has remained unchanged from Day One despite APS's rain dance: More than half the customers are **still not** on their Most Economic Plan full three years *after* the unjust and unreasonable rate increase.

- **PLEASE ASK APS:**

    - The Commission must ask APS to confirm or refute the revenue surplus because of non-MEP customers using the same format as used in the analysis above.

    - The Commission must ask also APS to provide the '100% MEP Rate Distribution' in the same format as its Rate Migration Report so that the Commission can clearly see where and how wide the non-MEP mismatches are.

[7] Overland Audit Report at: http://docket.images.azcc.gov/E000003432.pdf
[8] APS Rate Migration report at: https://docket.images.azcc.gov/E000007960.pdf#page=26

Customer Disconnects: Moratorium saved 57,000 shutoffs by APS alone

- **Monkey-wrench.** The news of Stephanie Pullman's death due to shutoff was about to hit the news media on June 13, 2019, which threw a monkey-wrench in APS's shutoff juggernaut. That very day, APS announced that it would "voluntarily" stop disconnections.

APS 2019 Shutoffs before Moratorium	
January	9,304
February	7,948
March	8,775
April	8,812
May	9,695
Monthly Average	8,907
2019 Annual Run Rate	**106,882**
Less: Actual 2019	50,427
Moratorium Saved...	**56,455**
Residential Customers	1,123,829
Shutoffs as a % of Customers	**9.5%**

- **Emergency rule.** The Commission passed the emergency moratorium on utility shutoffs on June 20, 2019. The Arizona Republic reported: "The emergency rule making was passed following news that a 72-year-old Sun City West woman died last year after Arizona Public Service Co. cut her power because she was behind on payments."[9]
- **APS was on track for 100,000+ shutoffs.** Prior to that, APS had performed 44,534 service terminations from Jan-May 2019, averaging 8,907 per month or at an annual run rate of **106,882** shutoffs.
- **Nearly 1 out of 10.** Considering APS had 1.12 million residential customers, the 2019 full-year APS shutoff rate was **9.5%** — equivalent to shutting off nearly 1 out of 10 APS customers.
- **Nearly same as in 2018.** That annual shutoff figure is hardly different from the approximately 110,000 APS shutoffs in 2018. (APS's after-the-fact rationalization that its suspension from February 24, 2017 through May 22, 2017 delayed disconnects that would have otherwise occurred in 2017 into 2018 makes zero sense.)
- **Moratorium saved 56,455 APS shutoffs.** APS ended 2019 with 50,427 shutoffs, meaning that the Commission's emergency rule making to ban shutoffs saved 56,455 shutoffs in 2019 by APS alone. Who knows how many lives that saved?
- **APS's shutoff rate 3.6 times that of TEP's.** As a comparison, TEP was on track for 10,356 annual shutoffs based on its Jan-May 2019 service terminations. As a percentage of its 387,409 residential customers, TEP's 2019 full-year shutoff rate was only **2.7%**. In other words, APS's shutoff rate of 9.5% was **3.6 times** as high as TEP's shutoff rate before the shutoff moratorium took effect.

TEP 2019 Shutoffs before Moratorium	
January	747
February	800
March	794
April	1,030
May	944
Monthly Average	863
2019 Annual Run Rate	**10,356**
Less: Actual 2019	6,317
Moratorium Saved...	**4,039**
Residential Customers	387,409
Shutoffs as a % of Customers	2.7%

- **Moratorium saved 4,039 TEP shutoffs.** TEP ended 2019 with 6,317 shutoffs, meaning that the Commission's emergency rule making to ban shutoffs saved 4,039 shutoffs in 2019 by TEP.

[9] "Arizona bans power shutoffs until Oct. 15 after death of Sun City West woman" at: https://www.azcentral.com/story/money/business/energy/2019/06/20/arizona-corporation-commission-bans-electricity-shutoffs-summer/1505457001/

Ms. Champion and Mr. Padgaonkar also have a large number of unanswered questions they have filed into the various dockets which this Commission should revisit. It has also been 8+ months since we brought the flawed rate comparison tool debacle to light, and hope the Energy Tools, LLC report will be forthcoming so ratepayers may get some relief — finally.

ATTACHMENT A

Subject: Residential Demand Charges
From: Stacey Champion <sc@champion-pr.com>
Date: 7/28/2020, 4:11 PM
To: jolson@azcc.gov, Bob Burns <rburns@azcc.gov>, Sdkennedy@azcc.gov, bdunn@azcc.gov, lmarquezpeterson@azcc.gov, Maren Mahoney <MMahoney@azcc.gov>
CC: Abhay Padgaonkar <abhay.padgaonkar@gmail.com>

Hi,

I want to share a beautiful summation of the ridiculousness of residential demand charges with you that Abhay sent to me, based on me sending Abhay my latest APS bill.

It should be noted that Abhay lives alone, can manage his energy usage like a hawk, etc.

I on the other hand am a single (sometimes frazzled) mom, so often have to cook before 8pm, sometimes forget to crank my thermostat up to 81 deg. between 3-8pm, etc.

Even though I'm extremely energy conscious, I'm not as on top of things as Abhay, and more akin to a "normal" customer. And I use the word customer lightly.

Here's the note from Abhay:

All the demand rate does is it creates rare winners (like me) and mostly all losers (like you).

Here's a perfect example: You and I are on the **exact same** demand rate and for the July 2020 bills, you paid **13.8** cents/kWh while I paid **6.7** cents/kWh! I used **81** kWh/day while you only used **54** kWh/day. My on-peak usage was almost non-existent -- only **0.8%** vs yours was **11%**. And you probably slipped up and cooked while the A/C was on between 3-8 PM, M-F, possibly just once! Sucker!! So, your peak demand was **5.9** vs **0.5** for me. So, although I used **707** kWh more than you, you paid **$75.62** more than me!!

Abhay

The above example highlights perfectly why the last rate design was massively flawed, and why demand charges ONLY benefit the company > shareholders.

Please feel free to file this in any of the dockets as you see fit. Also, I still have outstanding ACC public records requests dating back to FEBRUARY, and how is anyone going to have enough time to review the Energy Tools, LLC report that STILL hasn't been released when this item is up for discussion on the August open meeting? And finally, none of the questions I have submitted into the docket per your instruction have been answered. I should either be able to ask questions at the meetings, or have my questions answered. Kick the can...

Kindest Regards,

champion

Stacey Champion
Mistress of Publicity
Champion PR + Consulting
Tel: 602.788.0033
sc@champion-pr.com | www.champion-pr.com
Twitter: @ChampPR

2828 N. Central Ave. 10th Floor
Phoenix, AZ 85004